

EXECUTIVE CHAMBERS

HONOLULU

April 30, 2004

STATEMENT OF CONCERNS REGARDING HOUSE BILL NO. 2796

Honorable Members
Twenty-Second Legislature
State of Hawaii

I will allow HB 2796, "A Bill for an Act Relating to State Funds," to become law on May 3, 2004 without my signature. This action is taken pursuant to Section 16 of Article III of the State Constitution.

The purpose of this bill is to appropriate \$9,585,765 from the Emergency and Budget Reserve Fund to finance various programs. Many of these programs are those that provide services to those people who are the most vulnerable in our population - the frail, the disabled, children, and those who are suffering serious illnesses.

The concern I have is the manner in which these programs would be funded. This bill further reduces the Emergency Budget Reserve Fund (EBRF), which was created to provide the State with a critical financial reserve during an emergency, such as a severe economic downturn a natural disaster, or even, God forbid, another terrorist attack.

The Emergency Fund was not intended to provide money for programs that are ongoing in nature and help the neediest within our community. What is particularly disturbing is that forty specific programs listed in this bill are forced to wait anxiously every year, not knowing until the eleventh hour whether they will be accommodated by dipping into the emergency reserves.

This is both unfair and unkind. It is unfair because it makes the managers of these programs come begging

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to the legislators each year trying to get funds for their projects before they have to close their doors. It is unkind because these programs serve those in our society who have no way to fend for themselves.

Using the Emergency Budget Reserve Fund places the State in a precarious position. Bond rating agencies point out that although the emergency budget reserve is small relative to total State expenditures, the establishment and maintenance of the fund represent an important step toward institutionalizing prudent fiscal management policies for the State. We believe that to be an effective reserve, this fund should be allowed to grow to about five percent of general fund reserves, or approximately \$190 million. The estimated fund balance as of June 30, 2004 is \$54.3 million, considerably below this prudent goal. Also, we estimate receiving approximately \$8.1 million in FY 2005, well below the total appropriations of this bill at \$9.6 million. Therefore, the estimated fund balance on June 30, 2005 will go down to \$52.8 million. As a result, it will be incumbent upon me, as Governor, to manage this account, as well as the rest of the State's resources, in a prudent and conservative manner.

For the forgoing reasons, I will allow House Bill No. 2796 to become law effective May 3, 2004 without my signature.

Respectfully,

LINDA LINGLE
Governor of Hawaii